

## Bulletin 67

### PROCEDURES FOR RATING ORGANIZATIONS AND INSURERS ELECTING TO FILE LOSS COSTS

Effective January 1, 1991

This Bulletin specifies the framework under which rating organizations and members and subscribing insurers in rating organizations will operate in a loss cost system. Under this system, rating organizations will no longer develop or file final rates, but instead will develop and file prospective loss costs and supporting actuarial and statistical data. Each insurer must individually determine and file the rates it will use as a result of its own independent company decision-making process. The rating organizations will continue to develop and file rules and other supplementary rating information on behalf of their members and subscribing insurers.

Rating organization filings of prospective loss costs, rules and supplementary rating information, and insurer filings to adopt rating organization prospective loss costs, rules and supplementary rating information, shall be filed and made effective in accordance with the provisions of one of the following:

- I.C. 27-1-22-4: "File and Use." Filings become effective upon the date of filing by delivery or upon date of mailing by registered mail to the Commissioner, or on a later date specified in the filing.
- I.C. 27-1-22-7: Applies when a rate change involves a change in the production expense portion of the rates. Such filings shall be on file for a waiting period of 20 days before becoming effective.

Nothing in these procedures shall be construed to require rating organizations or their members and/or subscribing insurers to immediately refile rates previously implemented. Any member or subscribing insurer of a rating organization may continue to use all rates and deviations filed for its use until disapproved, or the insurer makes its own filing to change its rates, either by making an independent filing or by filing a Filing Adoption Form adopting the rating organization's prospective loss costs, or modification thereof.

The attached Filing Adoption Form and Summary of Supporting Information shall be used by all insurers making rate filings pursuant to this Bulletin.

#### Definitions

"Rating Organization" is an organization licensed pursuant to I.C. 27-1-22-8.

"Expenses" means that portion of a rate attributable to acquisition, field supervision, and collection expenses, general expenses, and taxes, licenses, and fees.

The term "prospective loss costs" means that portion of a rate that does not include provisions for expenses (other than loss adjustment expenses) or profit, and are based on historical aggregate losses and loss adjustment expenses adjusted through development to their ultimate value and projected through trending to a future point in time.

"Rate" means the cost of insurance per exposure unit, whether expressed as a single number or as prospective loss cost and an adjustment to account for the treatment of expenses, profit and variations in loss experience, prior to any application of individual risk variations based on loss or expense considerations, and does not include minimum premiums.

"Supplementary rating information" means any manual, minimum premium, rating schedule or plan of policy writing rules, rating rules, classification system, territory codes and descriptions, rating plans, and any other similar information needed to determine the applicable rate in effect or to be in effect. Supplementary rating information includes factors and relativities, such as increased limits factors, classification relativities, deductible relativities or similar factors.

"Supporting information" means (i) the experience and judgement of the insurer and the experience or data of other insurers or rating organizations relied upon by the insurer, (ii) the interpretation of any statistical data relied upon by the insurer (iii) descriptions of methods used in making the rates, and (iv) other similar information required to be filed by the Commissioner.

#### Rates/Loss Costs

##### (A) Rating Organization Action

1. Rating organizations may elect to no longer develop or file minimum premiums or final rates that contain provisions for expenses (other than loss adjustment expenses) and profit. Instead, for all lines, rating organizations may develop and file in accordance with I.C. 27-1-22-4 with the Insurance Commissioner a filing containing prospective loss costs and supporting actuarial and statistical data.
2. Filings will contain the advisory prospective loss costs and the underlying loss data and other supporting actuarial information for any calculations or assumptions underlying those loss costs.
3. After a Filing has been filed in accordance with I.C. 27-1-22-4 with the Insurance Department, the rating organization will provide its members and subscribing insurers with a copy of the Filing.
4. The rating organization may print and distribute manuals of prospective loss costs, as well as rules and other supplementary rating information described in Section IV.

##### (B) Insurer Action

1. Each insurer must individually determine the final rates it will file and the effective date of any rate changes. This will be the result of the independent company decision-making process unique to each insurer.
2. If an insurer that is a member or subscribing insurer in the rating organization decides to use the prospective loss costs in the Filing in support of its own filing, the insurer shall make a filing under I.C. 27-1-22-4 or I.C. 27-1-22-7 using the Filing Adoption Form (copy of form attached). The insurer's rates are the combination of the prospective loss costs which have been filed and the loss cost adjustments contained in the Filing Adoption Form.
3. The insurer may request to have its loss cost adjustments remain on file and reference subsequent prospective loss cost Filings. Upon receipt of subsequent rating organization loss cost Filings, the insurer's rates are the combination of the prospective loss costs and the loss cost adjustments contained in the Filing Adoption Form on file with the Insurance Department, and will apply to policies written on or after the effective date of the prospective loss costs. The insurer need not file anything further with the Insurance Department.
4. If an insurer that has filed to have its loss cost adjustments remain on file with the Insurance Department intends to delay, modify or not adopt a particular rating organization loss cost Filing, the insurer must make an appropriate filing with the Insurance Department.

5. The insurer's filed loss cost adjustments will remain in effect until the insurer withdraws them or files a revised Filing Adoption Form.

6. To the extent that an insurer's final rates are determined solely by applying its loss costs adjustments, as presented in the Filing Adoption Form, to the prospective loss costs contained in a rating organization's Filing and printed in the rating organization's rating manual, the insurer need not develop or file its final rate pages with the Commissioner. If an insurer chooses to print and distribute final rate pages for its own use, based solely upon the application of its filed loss cost adjustments to a rating organization's prospective loss costs, the insurer need not file those pages with the Commissioner. If the rating organization does not print the loss costs in its rating manual, the insurer must submit its rates to the Commissioner.

7. If an insurer wishes to use minimum premiums, it must file the minimum premiums it intends to use. An insurer must file to reaffirm continued use of existing rating organization manual minimum premiums until such time as it wishes to implement different minimum premiums.

8. For future Filings filed by the rating organization:

If the insurer HAS filed to have its loss cost adjustments remain on file, applicable to subsequent Filings, and a new Filing is filed and

If . . .

- |   |  |
|---|--|
| 1. The insurer decides to use the revision of the prospective loss costs and effective date as filed . . .                    | 1. the insurer does NOT file anything with the combination of the prospective loss costs and the on-file loss cost adjustments and become effective on the effective date of the loss costs. |
| 2. the insurer decides to use the prospective loss costs as filed BUT with a different effective date . . .                   | 2. the insurer must notify the Insurance Department of its the effective date before the effective date of the loss costs.   |
| 3. the insurer decides to use the revision of the prospective loss costs, but wishes to change its loss cost adjustments. . . | 3. the insurer must file a revised Filing Adoption Form under either I.C. 27-1-22-4 or 27-1-22-7.  |
| 4. the insurer decides NOT to revise its rates using the prospective loss costs. . .  | 4. the insurer must notify the Insurance Department before the effective date of the loss costs.   |

If an insurer has NOT elected to have its loss costs adjustments remain on file, applicable to future prospective loss costs reference filings, and a new Filing is filed, and

| If . . .  | Then . . .   |
|---|--|
| 1. the insurer decides to use the prospective loss costs to revise its rates. . . | 1. the insurer must file a Filing Adoption Form under I.C. 27-1-22-4 or 27-1-22-7, including its effective date. |
| 2. the insurer decides NOT to use the revisions. . .                              | 2. the insurer does not file anything with the Insurance Department.   |

#### Rules and Other Supplementary Rating Information

(A) Rating organizations may develop and make filings of rules and supplementary rating information as provided in I.C. 27-1-22-4 and may print and distribute manuals of rules and other supplementary rating information.

(B) Any insurer may satisfy its obligation to make filings of rules and other supplementary rating information by becoming a member or subscriber of a licensed rating organization and by authorizing the Commissioner to accept such filings on its behalf. The insurer's supplementary rating information shall be that filed from time to time by the rating organization, subject to any modifications filed by the insurer.

(C) If any insurer has authorized rating organizations to file on its behalf, and a new filing of rules and supplementary rating information is filed and If . . . Then . . . 1. the insurer decided to use the revisions and 1. the insurer does NOT file anything with the effective date as filed. . . Insurance Department. 2. the insurer decides to use the revisions as 2. the insurer must notify the Insurance filed BUT with a different effective date. . . Department of its effective date before the rating organization's effective date. 3. the insurers decide not to use the revision. . . 3. the insurer must notify the Insurance Department before the rating organization's effective date. 4. the insurer decides to use the revision with 4. the insurer must file the modifications with modification. . . the Insurance Department on or before the effective date, specifying the basis for the modification.

| If . . .   | Then . . .  |
|--|---|
| 1. the insurer decided to use the revisions and effective date as filed . . .                  | 1. the insurer does NOT file anything with the Insurance Department.  |
| 2. the insurer decides to use the revisions as filed BUT with a different effective date . . . | 2. the insurer must notify the Insurance Department of its effective date before the rating organizations's |

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|--|--|
|  | effective date.  |
| 3. the insurers decides not to use the revision . . .              | 3. the insurer must notify the Insurance Department before the rating organization's effective date.   |
| 4. the insurer decides to use the revision with modification . . . | 4. the insurer must file the modifications with the Insurance Department on or before the effective date, specifying the basis for the modification. |

All inquiries concerning this Bulletin should be addressed to Keith Kendall, Indiana Department of Insurance at 317-232-3495.

John J. Dillon, III  
Commissioner

Date: \_\_\_\_\_

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| Space Reserved for Insurance<br>Department Use |
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INSURER RATE FILING  
ADOPTION OF ADVISORY ORGANIZATION  
PROSPECTIVE LOSS COSTS  
REFERENCE FILING ADOPTION FORM

1. INSURER NAME \_\_\_\_\_  
ADDRESS \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

PERSON RESPONSIBLE FOR FILING \_\_\_\_\_  
TITLE \_\_\_\_\_ TELEPHONE # \_\_\_\_\_

2. INSURER NAIC # \_\_\_\_\_

3. LINE OF INSURANCE \_\_\_\_\_

4. ADVISORY ORGANIZATION \_\_\_\_\_

5. ADVISORY ORGANIZATION REFERENCE FILING # \_\_\_\_\_

6. The above insurer hereby declares that it is a member, subscriber or service purchaser of the named advisory organization for this line of insurance. The insurer hereby files to be deemed to have independently submitted as its own filing the prospective loss costs in the captioned Reference Filing. The insurer's rates will be the combination of the prospective loss costs and the loss cost multipliers and, if utilized, the expense constants specified in the attachments.

7. PROPOSED RATE LEVEL CHANGE \_\_\_\_\_% EFFECTIVE DATE \_\_\_\_\_

8. PRIOR RATE LEVEL CHANGE \_\_\_\_\_% EFFECTIVE DATE \_\_\_\_\_

9. ATTACH "SUMMARY OF SUPPORTING INFORMATION FORM"  
(Use a separate Summary for each insurer-selected loss cost multiplier.)

10. CHECK ONE OF THE FOLLOWING:

The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable to future revisions of the advisory organization's prospective loss costs for this line of insurance. The insurer's rates will be the combination of the advisory organization's prospective loss costs and the insurer's loss cost multipliers and, if utilized, expense constants specified in the attachments. The rates will apply to policies written on or after the effective date of the advisory organization's prospective loss costs. This authorization is effective until disapproved by the Commissioner, or amended or withdrawn by the insurer.

The insurer hereby files to have its loss cost multipliers and, if utilized, expense constants be applicable only to the above Advisory Organization Reference Filing.

Insurer Name: \_\_\_\_\_

Date: \_\_\_\_\_

NAIC Number: \_\_\_\_\_

INSURER RATE FILING  
ADOPTION OF ADVISORY ORGANIZATION PROSPECTIVE LOSS COSTS  
SUMMARY OF SUPPORTING INFORMATION FORM

CALCULATION OF COMPANY LOSS COST MULTIPLIER

1. Line, Subline, Coverage, Territory, Class, etc. combination to which this page applies:

\_\_\_\_\_

2. Loss Cost Modification:

A. The insurer hereby files to adopt the prospective loss costs in the captioned reference filing:  
(CHECK ONE)

Without modification (factor = 1.000)

With the following modification(s). (Cite the nature and percent modification, and attach supporting data and/or rationale for the modification.)

\_\_\_\_\_

\_\_\_\_\_

B. Loss Cost Modification Expressed as a Factor: \_\_\_\_\_  
(See examples below.)

NOTE: IF EXPENSE CONSTANTS ARE UTILIZED, ATTACHE "EXPENSE CONSTANT SUPPLEMENT" OR OTHER SUPPORTING INFORMATION. DO NOT COMPLETE ITEMS 3-7 BELOW.

3. Development of Expected Loss Ratio. (Attach exhibit detailing insurer expense data and/or other supporting information.)

|  | Selected Provisions |
|--|---------------------|
| A. Total Production Expense            | _____ %             |
| B. General Expense                     | _____ %             |
| C. Taxes, Licenses & Fees              | _____ %             |
| D. Underwriting Profit & Contingencies | _____ %             |
| E. Other (explain)                     | _____ %             |
| F. TOTAL                               | _____ %             |

4A. Expected Loss Ratio: ELR=100% - Overall 3F = \_\_\_\_\_ %

4B. ELR in decimal form = \_\_\_\_\_

5. Company Formula Loss Cost Multiplier: (2B ÷ 4B) = \_\_\_\_\_

6. Company Selected Loss Cost Multiplier = \_\_\_\_\_  
Explain any differences between 5 and 6:

\_\_\_\_\_

\_\_\_\_\_

7. Rate level change for the coverages to which this page applies \_\_\_\_\_ %

Example 1: Loss Cost modification factor: If your company's loss cost modification is -10%, a factor of .90 (1.000-.100) should be used.

Example 2: Loss Cost modification factor: If your company's loss cost modification is +15%, a factor of 1.15 (1.000 + .150) should be used

Insurer Name: \_\_\_\_\_

Date: \_\_\_\_\_

NAIC Number: \_\_\_\_\_

## EXPENSE CONSTANT SUPPLEMENT

### CALCULATION OF COMPANY LOSS COST MULTIPLIER WITH EXPENSE CONSTANTS

3. Development of Expected Loss Ratio. (Attach exhibit detailing insurer expense data and/or other supporting information.)

|  | Overall | Selected Provisions |       |
|--|---------|---------------------|-------|
|  |         | Variable            | Fixed |
| A. Total Production Expense            | _____   | _____               | _____ |
| B. General Expense                     | _____   | _____               | _____ |
| C. Taxes, Licenses & Fees              | _____   | _____               | _____ |
| D. Underwriting Profit & Contingencies | _____   | _____               | _____ |
| E. Other (explain)                     | _____   | _____               | _____ |
| F. TOTAL                               | _____   | _____               | _____ |

4 A. Expected Loss Ratio:  $ELR = 100\% - \text{Overall } 3F =$  \_\_\_\_\_

B. ELR in decimal form = \_\_\_\_\_

C. Variable Expected Loss Ratio  $VELR=100\% - \text{Variable } 3F =$  \_\_\_\_\_

D. VELR in decimal form = \_\_\_\_\_

5. Formula Expense Constant:

$[(1.00 \div 4B) - (1.00 \div 4D)] \times \text{Average Class Underlying Cost} =$  \_\_\_\_\_

6. Selected Expense Constant = \_\_\_\_\_

Selected Variable Loss Cost Multiplier = \_\_\_\_\_

7. Explain any differences between 5 and 6:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

8. Rate level change for the coverages to which this page applies \_\_\_\_\_%